

# **KENTUCKY DEPARTMENT OF EDUCATION**

## **STAFF NOTE**

### **Action/Discussion Item:**

Request for waiver of 702 KAR 3:030, Section 2(2) and Section 1(4) by Jefferson County Board of Education

### **Applicable Statute or Regulation:**

KRS 156.160; KRS 160.105; 702 KAR 3:030.

### **Action Question:**

Should the Kentucky Board of Education (KBE) approve the request for an exception or waiver of 702 KAR 3:030, Section 2 (2), the per-occurrence deductible requirement, and Section 1(4), requiring a loss limit of fifty (50) percent of total value?

### **History/Background:**

***Existing Policy.*** KRS 160.105 calls for KBE to require by administrative regulation that each school district provide fire and extended insurance coverage on non-surplus buildings, at not greater than replacement cost but allowing for coinsurance and deductible features. 702 KAR 3:030 establishes requirements for the level of insurance coverage needed for school district buildings and structures. KRS 156.160, Section (2) (a) allows a local board of education to request that the Kentucky Board of Education waive any administrative regulation promulgated by the KBE provided certain criteria are met.

Jefferson County Public Schools (JCPS) requests approval to carry property insurance coverage with a deductible of \$25,000 per occurrence, instead of \$10,000 per occurrence as required in 702 KAR 3:030, Section 2(2), because by increasing the deductible to \$25,000, they receive a rating credit of approximately fifteen (15) percent of their premium, which amounts to a cost reduction of \$330,000 annually.

JCPS also requests a waiver of 702 KAR 3:030, Section 1 (4) to allow for a \$500,000,000 per occurrence deductible, in lieu of a fifty (50) percent per occurrence deductible. A fifty (50) percent per occurrence deductible would be \$974,641,492, half of JCPS' total replacement costs of \$1,949,342,984.

### **Policy Issues and Options:**

At issue are the questions of adequate property insurance coverage for JCPS buildings, and whether the request for waiver meets the conditions for approval per KRS 156.160, Section (2). The Board has the following options regarding the request for waivers:

1. Approve the requested waivers.
2. Delay action and request additional information.

3. Deny the waiver request.

**Staff Recommendation and Rationale:**

Staff recommends KBE approval of requested waivers because:

- a. In our opinion, the request is financially responsible and the product of a thorough appraisal of the replacement value of district property, a detailed earthquake study and damage estimate, and an analysis of district insurance programs by an insurance consultant group.
- b. Regarding 702 KAR 3:030, Section 2 (2), with the savings on insurance premiums alone JCPS can more than cover any additional costs incurred due to the higher deductibles. JCPS also agrees to designate \$300,000 of their fund balance to offset any risk associated with the requested waiver.
- c. Regarding 702 KAR 3:030, Section 1 (4), the district's buildings are scattered throughout the county, a total area of 399 square miles. With sub limits of \$50,000,000 for earthquake insurance and \$50,000,000 of flood insurance, wind is the only other peril that could damage multiple properties in a single occurrence. With \$500,000,000 per occurrence in loss limits, fourteen (14) of JCPS' largest campuses would have to be completely destroyed at the same time to exceed this limit. To purchase an additional \$475,000,000 of property insurance in excess of \$500,000,000 would cost \$250,000 annually.
- d. Granting the waivers would not diminish property insurance protection for JCPS, and doing so will allow the resultant \$580,000 savings to be used for educational purposes.
- e. The waiver request complies with conditions of KRS 156.160, Section (2), allowing approval by KBE.

**Impact on Getting to Proficiency:**

Money saved by granting the requested waivers can be used for favorably affecting district progress toward reaching proficiency in 2014.

**Contact Person:**

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**Deputy Commissioner**

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**Commissioner of Education**

**Date:**

December 2008